

- (m) For rate periods beginning July 1, 1995, facilities with 65 % or less Medicaid utilization shall receive no operating incentives.
- Facilities between 65 % and 90 % Medicaid utilization shall have their operating incentives prorated by multiplying their operating incentives by the percentage calculated in the following formula:

$$\frac{[\text{Medicaid Utilization \%} - 65\%]}{100 - 65\%}$$

100 X

25%

- E. 1. FRVS for existing facilities at October 1, 1985.
- a. Each existing facility, at October 1, 1985, shall have an FRVS rate established for capitalized tangible assets based upon the assets' acquisition costs at the last dates of acquisition prior to July 18, 1984. Facilities purchased after July 18, 1984 and not enrolled in the Medicaid program prior to the purchase or facilities constructed after July 18, 1984 and enrolled in the program shall have an FRVS rate established on the basis of the last acquisition costs prior to enrolling in the Medicaid program. The acquisition costs shall be determined from the most current depreciation schedule which shall be submitted by each provider. These acquisition costs, including the cost of capital improvements and additions subsequent to acquisition, shall be indexed forward to October 1, 1985 by a portion of the rate of increase in the Florida Construction Cost Inflation (FCCI) Index based on the Dodge Construction Index. The change in the FCCI Index from September, 1984 to March, 1985

shall be used to project the FCCI Index for October 1, 1985, with no subsequent retroactive adjustment. The costs of land, buildings, equipment, and other capital items allowable for Medicaid reimbursement per CMS-PUB.15-1 such as construction loan interest expense capitalized, financing points paid, attorneys fees, and other amortized "soft" costs associated with financing or acquisition shall be included in determining allowable acquisition costs subject to indexing. Property taxes (which excludes sales tax on lease payments) and property insurance expenses shall not be included in the calculation of the FRVS rate, but shall be reimbursed prospectively, based on actual costs incurred and included in the total property rate. For FRVS rates calculated after October 1, 1985 but prior to July 1, 1991, the 6-month change in the FCCI Index based on the Dodge Construction Index shall be determined for adjusting FRVS rates. For rates effective on or after July 1, 1991, the FCCI Index based on the DRI/McGraw - Hill Health Care Costs, Consumer Price Index All Urban All Items South Region shall be used.

FRVS rates shall be adjusted for inflation on each January 1 and July 1, using the change in the FCCI Index for the most recent 6-month period published prior to the rate semester. FRVS rates shall be adjusted per subsections f. and j. below for changes in interest rates on capital debt instruments and for capital additions or improvements on each January 1 and July 1. (See Appendix B for computation of the index).

- b. A single FCCI Index, based upon the average of the Dodge Construction indices for the six cities in Florida for which an index is published, shall

be used through June 30, 1991 and the most recently published DRI Health Care Costs All Urban All Items South Region Index quarterly indices for July 1, 1991 and thereafter. The rate of increase in the FCCI Index, for purposes of indexing FRVS rates, shall be limited to a 3 percent semi-annual increase; however, during semesters when the increase in the index is greater than 3 percent, a credit, calculated as the actual increase minus 3 percent, shall be carried forward for future periods and added to the increase in the index, up to a maximum of 3 percent, when the actual future increases in the index are less than 3 percent. For example, if the increase in the index is 4 percent in Period 1, 3 percent shall be used and a credit of 1 percent shall be carried forward; then, if the increase in the index is 2 percent in Period 2, a 3 percent rate of indexing shall be used, by adding the 1 percent credit to the actual 2 percent increase. If more than 2 percent credits were available, a maximum of 3 percent rate of indexing would be used, and the remaining credits would again be carried forward to future periods. The credits shall carry forward indefinitely until they are reduced by applying them to periods during which the rate of increase in the FCCI Index is less than 3 percent. The credits shall accrue by individual facility, so that any facility entering the program in a period where the increase in the FCCI Index is less than 3 percent shall not benefit from credits accrued during prior periods by other facilities.

- c. The portion of the FCCI Index increase used to index asset valuation each year shall vary with the number of years the facility participated in the program since January 1, 1972. For the first 10 years of

participation, a straight-line increasing portion of the allowable increase in the index shall be used: 1/10 in year 1, 2/10 in year 2, 3/10 in year 3, up to 10/10 in year 10. The total percent increase allowed for any 6-month rate semester shall not exceed 3 percent. For the second 10 years, the unadjusted index increase shall be used, subject to a 3-percent semi-annual limitation. For the next 20 years, years 20 through 40, a straight-line decreasing portion of the allowable increase in the index shall be used subject to the 3-percent limit per rate semester: 95 percent in year 21, 90 percent in year 22, 85 percent in year 23, down to 0 percent in year 40. Thus, after 39 years of participation in the program, no further indexing shall be given to a facility.

- d. For rate semesters beginning on or after January 1, 1986, an adjustment shall be made in indexing for failure of a licensure re- inspection and for low Medicaid utilization.
  - (1) Any facility which receives a conditional licensure rating and upon re inspection has not corrected deficiencies as required by the AHCA Office of Licensure and Certification, shall receive no indexing in the FRVS rate for the 6-month rate period subsequent to the re inspection.
  - (2) Medicaid utilization shall be calculated as Medicaid patient days divided by total patient days, for fiscal years ending in 1980 or after. The utilization will be calculated from the cost report or budget used to set the rates for the respective rate semester. For the initial FRVS rates established on October 1, 1985, cost reports received by AHCA by September 1, 1985 will be used.

Years earlier than 1980 shall have no adjustment made for utilization, but rather shall receive full credit for Medicaid utilization. The adjustment for fiscal years ending in 1980 or after shall be computed as follows: if the provider's cost report or budget shows less than 25-percent average Medicaid utilization for the cost reporting period, then no indexing of asset valuation shall be given; if 25 percent to 55 percent Medicaid utilization is computed, then the portion of the FCCI Index increase calculated in subsection 1.c. above shall be multiplied by the fraction equal to the actual utilization percent divided by 55 percent; if 55 percent or greater Medicaid utilization is computed, then full indexing using the portion of the FCCI Index increase calculated in subsection 1.c. above shall be given.

- e. The asset valuation of the facility shall be indexed, according to 1.a.-1.d. above, from the date of entry into the Medicaid program, but not prior to January 1, 1972, to October 1, 1985. That asset valuation, subject to the cost per bed ceiling in g. below, shall be used to initiate FRVS property reimbursement at October 1, 1985. The change in the FCCI Index from September 1984 to March 1985 shall be used to project the FCCI Index for October 1, 1985, with no subsequent retroactive adjustment. The total asset valuation shall be divided into two components: 80 percent of the total asset valuation shall be amortized over 20 years, at the interest rate specified in f. below, to determine an amount which would pay principal and interest on an installment mortgage for that 80 percent of

the asset valuation. For facilities beginning FRVS with a total initial principal balance of all current mortgages less than 60 percent of the indexed asset value, only the interest portion will be used in calculating the FRVS rate. The calculated interest plus principal or interest-only expense will be converted to a per diem by dividing by 90 percent of the maximum annual bed days of the facility. However, for newly-constructed facilities, the per diem calculated for that facility's first year of operation shall be the result of the principal and interest or interest-only expense divided by 75 percent of the maximum possible annual bed days. For those facilities that have put into service new beds for the first 12 months, the per diem shall be the result of the principal and interest or interest-only expense divided by a weighted average occupancy percentage greater than 75 percent but less than 90 percent of the maximum annual bed days if the addition of beds was 50 percent or more of the existing bed capacity, or the addition of 60 beds or more. A weighted average occupancy rate shall be computed, equal to the sum of:

- 1) The ratio of the new beds to total facility beds multiplied by 75 percent; and
- 2) The ratio of existing beds prior to the addition to total facility beds multiplied by 90 percent.

Property taxes (which excludes sales tax on lease payments) and insurance shall have a per diem calculated based upon actual historic cost and patient days as shown in the latest applicable cost report.

Twenty percent of the asset valuation shall be used to calculate a return on equity for property-related equity per sections III.J. and K., and this

return on equity shall be included as part of the FRVS rate. This will be converted to a per diem by dividing by 90 percent of the maximum annual bed days of the facility and by 75 percent of the maximum annual bed days for newly constructed facilities. Again, for those facilities that have put into service new beds for the first 12 months, and the addition of beds was 50 percent or more of the existing bed capacity, or the addition of 60 beds or more, the twenty percent will be converted to a per diem by dividing by a weighted average occupancy percentage greater than 75 percent but less than 90 percent of the maximum annual bed days as explained in 1) and 2) above.

- f. (1) The interest rate used to amortize the 80 percent component of the asset valuation shall be the lower of: the owner's actual mortgage rate; the Chase Manhattan Bank's prime rate as of the date of the provider's loan commitment plus 2 percent for a variable-rate mortgage or plus 3 percent for a fixed mortgage rate; or 15 percent. If an owner has more than one outstanding debt instrument, the owner's actual rate used for this section shall be an average of the rates for all of the outstanding debt, weighted by the amount of the original principal of each debt instrument.
- (2) No changes subsequent to establishment of the initial FRVS rate shall be made to the interest rate used to calculate the FRVS rate for providers with fixed-rate mortgages except as allowed per (5) below. For variable-rate mortgages, no changes shall be

made unless the owner's interest rate changes according to (3) below.

- (3) For the initial FRVS rates at October 1, 1985, the July 1, 1984 Chase prime shall be used for the "lesser of" comparison with the provider's actual rate. For those providers that received the July 1, 1984 Chase prime (13%) at June 30, 1996, (referenced above) beginning with the July 1, 1996, rate semester, these same providers shall have 12.5% used for the "lesser of" comparison on and after July 1, 1996. For rate semesters prior to July 1, 1996, these same providers shall remain at 13%. Providers shall be required to notify the Agency of their mortgage rate and any changes in their mortgage rate. Providers with variable mortgage rates shall submit current changes in their mortgage rates by October 15 and April 15 of each year to qualify for an adjustment to their FRVS rate on the following January 1 or July 1, respectively. At that time, the FRVS rate to be used for the next 6-month rate semester beginning January 1 or July 1 shall be determined using the most current mortgage rate, but not to exceed the October 15 or April 15, respectively, Chase-Manhattan prime plus 2 percent, or 15 percent.
- (4) For facilities beginning the FRVS with a total initial principal balance of the mortgages less than 60 percent of their indexed asset value, the interest rate used to amortize the 80-percent component shall be the applicable Chase prime as detailed above, but not to exceed 15 percent. The amortization of prime



over 20 years shall be used to determine an amount which would pay interest on an installment mortgage for that 80-percent valuation. The prime rate used to initiate FRVS for providers with an initial principal balance of the mortgage less than 60 percent of their indexed asset value shall remain fixed for that provider in calculating future FRVS payments. However, if at some point in the future a provider finances capital assets such that the total original principal of debt instruments equals or exceeds 60 percent of the FRVS asset valuation, then the FRVS rate at the next rate semester shall be calculated using the interest rate per (1) above.

- (5) An increase in the interest rate shall be allowed only if refinancing was necessary in order to finance the addition of new beds or to meet the final payments of the former debt instrument, or to consolidate existing debt excluding debt to owners; for example, in cases where balloon payments are due. If a new mortgage is secured at the addition of new beds and a prior mortgage is still in effect for the original facility, a weighted average mortgage rate shall be used in (1) above based upon mortgage amounts and interest rates of the various mortgages.

- g. The standard, or ceiling, per-bed cost shall be established at \$28,500.00 at October 1, 1985. Each existing facility at October 1, 1985, shall have its total capital assets valuation limited to that standard or the facility's computed asset valuation, whichever is less.

The standard of \$28,500.00 shall be indexed forward every 6 months based upon the most recently published 6-month full increase in the FCCI Index and shall be used to limit new construction costs in the future. New facilities shall be limited to the standard in effect 6 months prior to the date the facility was first put into service as a nursing home. A facility shall not receive an adjustment to account for increases in the standard at later dates.

- h. A "hold harmless" provision shall be implemented to ensure that facilities existing and enrolled in the Medicaid program at October 1, 1985, do not receive reimbursement for property and return on equity or use allowance under the FRVS method less than the property cost reimbursement plus return on equity or use allowance given at September 30, 1985. If, after calculation of the FRVS rate, that reimbursement would be lower than depreciation plus interest costs under III.G. 3.-5. of this plan, a facility shall continue to be reimbursed depreciation plus interest according to III.G. 3.-5. of this plan until such time as the net difference in total payments between III.G. 3.-5. and FRVS is zero. Providers who wish to begin FRVS reimbursement that would result in payments less than the depreciation plus interest payments must notify the Agency in writing by December 2, 1985. Facilities with existing leases at October 1, 1985, shall be paid at the September 30, 1985 rate subject to III.G.2. until the current lease expires, at which time reimbursement shall begin under FRVS based on the owner's acquisition costs. Providers shall supply the Agency with the appropriate lessor's ownership costs to receive property